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TO RUEHC/SECSTATE WASHDC PRIORITY 0276
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RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 002978

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STATE FOR EUR/RUS, EEB/IFD
TREASURY FOR TORGERSON
DOC FOR 4231/IEP/EUR/JBROUGH
NSC FOR ELLISON

E.O. 12958: DECL: 10/07/2018

TAGS: EFIN ECON RS

SUBJECT: RUSSIAN STOCK MARKETS' DOWNWARD SPIRAL STEEPENS

REF: MOSCOW 2900

Classified By: Acting DCM Eric T. Schultz, Reasons 1.4 (b/d).

Summary

¶11. (SBU) Russia's main stock indices posted their largest one-day losses at the end of the trading day on October 6. The benchmark Russian Trading System (RTS) Index plunged 19.1 percent, and the Moscow Interbank Currency Exchange (MICEX) Index fell 18.7 percent. Russian stock prices fell amid concerns about softening global prices for natural resources as well as about the efficacy of the U.S. financial rescue package. Trading resumed late on October 7. Both indices initially rose on news that First Deputy Prime Minister Shuvalov had met with Finance Minister Kudrin and Deputy Economic Development Minister Andrey Klepach to discuss implementing a series of "new, anti-crisis" measures. However, declines resumed mid-afternoon amid reports the GOR had requested authorization to use the Central Bank's reserves to mitigate the ongoing crisis. End Summary.

Russian Stocks' Worst Day Ever

¶12. (SBU) Russia's October 6 stock trading session witnessed the worst one-day performance in the country's history. The precipitous decline in share prices prompted the Federal Financial Markets Service to order two separate trading suspensions of an hour each. Despite the regulator's intervention, the benchmark Russian Trading System (RTS) Index fell 19.1 percent, and the Moscow Interbank Currency Exchange (MICEX) Index fell 18.7 percent. Among the day's big losers were some of Russia's most prominent companies: steel maker Sverstal, which dropped nearly 50 percent, mining giant Norilsk Nickel, which lost more than 30 percent of its value, and Gazprom, which only a few months ago ranked as one of the world's largest companies with a market capitalization of more than \$350 billion, and after a 20 percent drop October 6, is now worth less than \$80 billion.

¶13. (SBU) Softening demand for commodities, which are the dominant feature of Russia's economy, helped push share prices lower. The per-barrel price of Urals slipped below \$90, provoking concerns about cash flow for Russian firms and for the federal budget, whose 2008 oil price assumption is \$92 per barrel. However, uncertainty spread beyond the natural resources sector. Investors expressed concern about the impact and the timing of the U.S. financial rescue plan as reports emerged about domestic sources of credit drying

up. Retail grocery stores such as X5 and 7th Continent reportedly were unable to secure credit to keep their shelves stocked. Soyuz Bank, a component of oligarch Oleg Deripaska's Basic Element holding company, announced it would not provide any new credit to its main pool of clients -- real estate developers. Moscow Mayor Yuriy Luzhkov has publicly pledged to use the city's budget resources to keep real estate development projects afloat.

Trading Delayed

14. (SBU) The Federal Financial Markets Service (FFMS) issued an order the morning of October 7 that the trading would begin with a 2.5 hour delay. The FFMS announced that the cause for the delay was the dissemination of new guidelines for suspending trading. According to the new rules, trading will be suspended for two hours if the indices change more than 10 percent in less than two hours.

15. (SBU) The measure helped restore calm to the markets, at least initially, by giving investors time to absorb the news that First Deputy Prime Minister Igor Shuvalov had met with Finance Minister Aleksey Kudrin and Deputy Economic Development Minister Andrey Klepach to discuss unspecified new anti-crisis measures to bolster the country's financial markets.

Declines Resume

16. (SBU) Despite rising approximately 2 percent in the first hours of trading, the RTS and MICEX indices began falling again and closed between 1-2 percent below the October 6 close. The cause of the afternoon slide appears to have been reports that the anti-crisis measures being considered by the GOR included Duma authorization to use approximately \$18 billion in Central Bank reserves to mitigate the crisis by providing additional liquidity and credits to the banking system. However, details of the GOR proposal are not available.

Comment

17. (C) As Russia's financial system spirals deeper into crisis, the aftershocks are spreading beyond the financial sector. The retail segment's credit crunch and real estate slowdown are having a direct impact on the economy. The new anti-crisis measures will likely employ yet more state resources to keep the financial sector afloat at the expense of longer-term modernization goals. There is no sign as yet that the GOR's liquidity efforts are working. They appear, however, to be causing added inflation -- possibly 14 percent by the end of the year -- which will eat away at corporate profits as well as incomes. End Comment

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